Public Services Commission of the
United States Virgin Islands

To: **Marlene H. Dortch**
Office of the Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Vice President – High Cost Division
Universal Service Administrative Company
700 12th Street, N.W. Suite 900
Washington DC 20005

CC Docket 96-45, WC Docket 14-58 – Annual State Certification of Support for Eligible Telecommunications Carriers Pursuant to 47 C.F.R. § 54.314

Pursuant to the requirements of 47 C.F.R. § 54.314, the Virgin Islands Public Services Commission hereby certifies to the Federal Communications Commission and the Universal Service Administrative Company that VITELCO is eligible to receive federal high-cost support for the program years cited.

The Public Services Commission of the Virgin Islands certifies for VITELCO that all federal high-cost support provided to that carrier was used in the preceding calendar year (2015) and will be used in the coming calendar year (2017) only for the provision, maintenance , and upgrading of facilities and services for which the support is intended.

I am authorized to make this certification on behalf of the Public Services Commission of the Virgin Islands. This certification is for study area 643300 for the Territory of the United States Virgin Islands.

Dated this 27th day of September, 2016.

Andrew Rutnik
Vice Chairman
Virgin Islands Public Services Commission
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August 25, 2016

Mr. Johann Clendenin
Chairman
Public Services Commission of the
United States Virgin Islands
P.O. Box 40
Charlotte Amalie, USVI 00804

Re: Federal USF Certification – VITELCO

PUBLIC VERSION

Dear Mr. Clendenin:

This letter presents GCG's analysis in connection with the annual certification from the Virgin Islands Public Services Commission ("PSC" or "Commission") that VITELCO has complied with Section 254(e) of the federal Telecommunications Act of 1996 ("Federal Act") during calendar year 2015 and will comply in the upcoming calendar year, 2017. VITELCO receives monies from interstate universal service funds (USF) that are designated to support local services, build needed infrastructure and improve service quality.

Each year, the PSC is required under Section 54.314(a) of the FCC rules to certify to the Federal Communications Commission ("FCC") and Universal Service Administrative Company ("USAC") that USF support has been and will be used only for the purposes designated in the Federal Act. USF will be denied to any "Eligible Telecommunications Carrier" ("ETC") that is not certified by its state regulatory agency. If the Commission does not file the certification with the FCC and USAC by October 1, the ETC will be denied funds on a pro-rata basis for the period that the certification is delayed.[1] The certification is filed electronically with both the FCC and USAC.

State regulatory agencies must certify that federal high-cost and Connect America Fund ("CAF") support was used only for the provision, maintenance and upgrading of the facilities and services for which the support is intended, BOTH for the most recent calendar year AND

[1] The FCC modified its rule regarding late filings in its Report and Order, *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, et al,* WC Docket No. 10-90, et al, Released December 18, 2014, FCC 14-190. Under the current rules, there is a grace period of three days before funding is denied and a minimum seven day forfeiture. Previously, support was denied for each quarter the certification was delayed.

for the upcoming calendar year. This rule applies regardless of the high-cost or CAF program under which the support was provided. In order for the Commission to be comfortable making this certification, the Commission must rely on the recent performance by VITELCO and on the Commission's ongoing monitoring efforts. Our review was based primarily on performance during calendar year 2015 but was supplemented, where appropriate, by available data for year-to-date 2016.

The FCC has made many changes to the USF program in the last several years in connection with a transition to supporting broadband in lieu of traditional voice services. These changes are discussed later in this report. However, VITELCO has opted not to participate in the new funding mechanisms at this time. Consequently, this report is based on the same kind of analysis we have used in the past. Please note that some of the updated documentation requirements by the FCC for "Use" certifications still apply even though VITELCO has opted not to participate in some of the FCC's new funding programs.

VITELCO sought confidential treatment for some of the information GCG relied upon for the USAC review. Where it was necessary to include this information in this report, the paragraphs or tables containing the information alleged to be confidential are marked "CONFIDENTIAL" before and after the paragraphs or tables.

Background

Section 254(b)(1) of the Federal Act established the principle that affordable and high quality telephone service should be available throughout the United States. "Quality services should be available at just, reasonable, and affordable rates."

Section 254(b)(3) specifically addresses high cost insular areas such as the US Virgin Islands:

> "Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, *including* interexchange services and *advanced telecommunications and information services*, that are *reasonably comparable to those services provided in urban areas* and that are available *at rates that are reasonably comparable* to rates charged for similar services in urban areas." [Emphasis added.]
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> In its November 18, 2011 *USF/ICC Transformation Order* [2] the FCC said: "*Principles and Goals*. We begin by adopting support for broadband-capable networks as an express universal service principle under section 254(b) of the Communications Act, and, for the first time, we set specific performance goals for the high-cost component of the USF that we are reforming today, to ensure these reforms are achieving their intended purposes. The goals are: (1) preserve and advance universal availability of voice service; (2) ensure universal availability of modern networks capable of providing voice and

[2] *In the Matter of Connect America Fund, et. al.,* WC Docket No. 10-90, et. al., Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (released November 18, 2011)("*USF Transformation Order*")

broadband service to homes, businesses, and community anchor institutions; (3) ensure universal availability of modern networks capable of providing advanced mobile voice and broadband service; (4) ensure that rates for broadband services and rates for voice services are reasonably comparable in all regions of the nation; and (5) minimize the universal service contribution burden on consumers and businesses." (Para. 17)

Thus, the federal universal service programs are designed to:
1.) provide funds to keep rates as low as possible,
2.) ensure high quality of service,
3.) build telecommunications infrastructure and encourage deployment of advanced services.

In order to accomplish these goals, the Federal Act established an explicit funding mechanism – the USF - under the direction of the FCC. Only ETCs may receive USF support. USF is administered for the FCC by USAC, an affiliate of the National Exchange Carrier Association.

Funds collected through a surcharge on end users of interstate services were made available to ETCs in high cost areas until 2012 based on a formula that recognized the higher cost of serving rural areas compared to urban areas. The FCC made sweeping changes to the federal universal service programs in its *USF Transformation Order*. These changes were driven by the fundamental shift in the communications paradigm in the United States from primarily voice grade to a mix of voice grade and broadband. Among these changes was a restructure of the high-cost program into several new funds.[3] Over time, the Connect America Fund ("CAF") will replace the legacy high-cost fund. It is designed to make broadband available in areas that do not, and would not otherwise, have access to adequate broadband services, but only in those areas where a federal subsidy is needed to ensure the build-out of broadband networks. CAF broadband support will ultimately be distributed based on market driven policies including cost modeling and competitive bidding. (This is referred to as "CAF Phase II"). Price-cap[4] ILECs[5] such as VITELCO had the option to accept funding based on the broadband cost model[6] which was developed by the FCC. VITELCO has chosen not to

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[3] High-cost support is currently, or will be in the near future, provided to eligible carriers from one of the following programs: 1.Frozen High-Cost Support; 2. Phased-Down CETC Support; 3. CAF Phase II Model-Based Support; 4. CAF Phase II Competitive Bidding-Based Support; 5.CAF Broadband Loop Support; 6. Alternative Connect America Cost Model-Based Support (Rate of Return carriers only); 7. Mobility Phase I Support; and 8. Mobility Phase II Support.

[4] "Price cap" regulation sets prices according to an index that reflects the overall rate of inflation in the economy and the ability of the operator to gain efficiencies. In general, prices can be changed periodically by the service provider to meet changing market conditions but within limits set by the regulator. VITELCO is regulated for interstate services under price caps by the FCC but is a rate-of-return carrier for local rate making purposes.

[5] An "Incumbent Local Exchange Carrier" is any wireline carrier that provided local telecommunications services before the local market was opened to competition. The term specifically excludes wireless carriers.

[6] The Broadband Cost Model is a forward-looking economic simulation of the costs of building an efficient broadband network. It is designed to reflect the differences in cost that are driven by factors such as terrain and population density but assumes the most efficient network design. The model was used by the FCC to estimate

accept that funding. For any ILEC that elects not to accept model based USF support, USF support has been frozen at the same level the ILEC received in 2011. Frozen high-cost support will continue indefinitely until replaced by broadband support based on competitive bidding.[7] At this time, the length of time VITELCO may continue receiving frozen high-cost support is unknown. However, we assume that it will be available at least through 2017. For 2015, it received $16,360,728 in frozen high-cost USF support.

ETC Requirements

In its *USF Transformation Order*, the FCC extended the reporting requirements in Section 54.313 of the federal rules to all ETCs, including those designated by the states[8]. Although some of these requirements apply to all recipients of funding, each of the various High-Cost USF programs also has its own set of reporting requirements. Below we listed only those requirements that apply to VITELCO:

Any recipient of frozen high-cost support must provide the following broken between voice service and broadband service:

(1) Detailed information on any outage in the prior calendar year of at least 30 minutes in duration for each service area in which an eligible telecommunications carrier is designated for any facilities it owns, operates, leases, or otherwise utilizes that potentially affect

(i) At least ten percent of the end users served in a designated service area; or

(ii) A 911 special facility.

(iii) Specifically, the eligible telecommunications carrier's annual report must include information detailing:

(A) The date and time of onset of the outage;

(B) A brief description of the outage and its resolution;

(C) The particular services affected;

(D) The geographic areas affected by the outage;

(E) Steps taken to prevent a similar situation in the future; and

(F) The number of customers affected.

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the amount of capital expenditure needed to build a broadband network where such a network does not already exist.

[7] Current rules require the bidders in the auction to be designated as ETCs at the time of their bid. However, the FCC has proposed that a carrier would be allowed to bid even if not currently designated provided it sought ETC designation within 30 days after being notified that it won the bidding. The state regulatory agency would be given a limited amount of time to decide on the petition for ETC designation. See *In the Matter of Connect America Fund, et. al.,* WC Docket No. 10-90, et. al., Report and Order, Declaratory Ruling, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54 (released June 10, 2014)("*CAF Omnibus Order*")paragraphs 179-185. Most recently, the FCC created a new classification for service providers that want to offer broadband Internet service (BIAS) under the Lifeline program. The FCC has asserted jurisdiction over the ETC designation process if these service providers are limited to Lifeline only. The PSC retains the authority to designate as ETCs any provider of BIAS that will offer services to the general public as well as Lifeline consumers. See discussion of the *2016 Lifeline Reform Order* later in this report.

[8] *USF Transformation Order*, para. 573.

(2) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year. The carrier shall also detail how it attempted to provide service to those potential customers;
(3) The number of complaints per 1,000 connections (fixed or mobile) in the prior calendar year;
(4) Certification that it is complying with applicable service quality standards and consumer protection rules;
(5) Certification that the carrier is able to function in emergency situations;
(6) The company's price offerings in a format as specified by the Wireline Competition Bureau;
(7) The recipient's holding company, operating companies, affiliates, and any branding (a "dba," or "doing-business-as company" or brand designation), as well as universal service identifiers for each such entity;
(8) A certification that all frozen-high cost support the company received in the previous year was used to build and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor;
(9) A certification that the pricing of the company's voice services is no more than two standard deviations above the applicable national average urban rate for voice service, as specified in the most recent public notice issued by the Wireline Competition Bureau and Wireless Telecommunications Bureau;
(10) The results of network performance tests pursuant to the methodology and in the format determined by the Wireline Competition Bureau, Wireless Telecommunications Bureau, and Office of Engineering and Technology;
(11) A certification that the pricing of a service that meets the Commission's broadband public interest obligations is no more than the applicable benchmark to be announced annually in a public notice issued by the Wireline Competition Bureau, or is no more than the non-promotional price charged for a comparable fixed wireline service in urban areas in the states or U.S. Territories where the eligible telecommunications carrier receives support; and
(12) All incumbent local exchange carrier recipients of high-cost support must report all of their rates for residential local service for all portions of their service area, as well as state fees as defined pursuant to §54.318(e), to the extent the sum of those rates and fees are below the rate floor as defined in §54.318, and the number of lines for each rate specified. Carriers shall report lines and rates in effect as of June 1.

In order to facilitate the oversight and certification requirements in Section 54.313, the FCC required all ETCs to file Form 481, Carrier Annual Reporting Data Collection Form, which serves as a vehicle for standardized reporting. A copy of this form is filed with the state regulatory agency with jurisdiction over the carrier. The FCC intended for all states to use information on this form in their annual "Use" certifications.

Form 481 was intended to supplement state requirements which could require more detail. It is a PSC requirement that VITELCO must submit a progress report on its five-year service quality improvement plan, including information detailing its progress towards meeting its plan targets. The information shall be submitted at the wire center level or census block as appropriate.[9]

Finally, the PSC requires VITELCO to submit local revenues and expenses by account and the latest Part 36 jurisdictional separations study in order to determine whether USF support was used to underwrite local revenue requirements, thus keeping local rates at a level that does not jeopardize wide deployment of basic residential voice services.

VITELCO's Request for Annual USAC Certification

VITELCO submitted its request for certification on July 31, 2016. This submission was generally responsive to the reporting requirements contained in Section 54.313 and the PSC's usual reporting requirements. VITELCO submitted a copy of the Form 481 containing responses to the FCC's requirements on July 1, 2016

The submission included a five year plan for the use of USF for the period FY 2017-FY 2021 and a progress report for FY 2016. The submission also included a copy of Form 481, and the revenue, expense and jurisdictional separations data we requested. VITELCO did not include Quality of Service results. Instead, we used the 2015-2016 QoS results routinely submitted to the PSC under other dockets in this "Use" certification review.

Analysis of VITELCO's Submission

Under Section 54.314(a), the PSC must certify that ETCs under their jurisdiction will use USF only for the provision, maintenance and upgrading of facilities and services for which the support was intended. As mentioned earlier, the Federal Telecom Act of 1996 makes it clear that the support was intended to provide affordable, high quality and universally available services to all parts of the Nation, including rural and insular areas such as the Virgin Islands. The Act also intended USF to be used to support the deployment of advanced services. Thus there are three main areas on which we must base our analysis to determine compliance with the certification requirements:

1. The extent to which USF was used to subsidize local rates;
2. The extent to which USF was used to upgrade or expand the network to provide basic and advanced services; and
3. The extent to which basic service meets quality standards.

[9] Since 2008, the PSC has accepted VITELCO's progress report and 5-year budget estimates on planned federal USF expenditures in lieu of a formal 5-year plan as envisioned by the FCC. The FCC called for maps and other detail at a very fine level of geographic detail. We were satisfied with the detail provided by VITELCO for two reasons. First, during the period from 2010 to 2015, VITELCO replaced almost all of the legacy plant that existed prior to that time. The bulk of the capital expenditures were related to the network modernization program that covered almost all populated areas in the Territory. Second, almost all of the remaining capital expenditures were for bulk (routine) projects that covered the entire VITELCO service area or vehicles used in the performance of these projects.

In 2015, VITELCO received $16,360,728 in Frozen High-Cost support. This amount was based on the total received in 2011 without consideration of out-of-period adjustments. Under the previous USF mechanism, VITELCO received $3,505,308 in High Cost Loop Support ("HCLS") which was intended to help defray the costs of operating a local telephone network. The remaining $12,855,420 was provided through the Interstate Common Line Support ("ICLS") program which helped defray interstate revenue requirements that were not recovered through interstate access charge rates.[10] Since ICLS was wholly interstate in jurisdiction, it should not be considered when examining the extent to which local rates may have received USF support.[11] On the other hand, the entire amount of Frozen High-Cost support should be considered in the analysis of network enhancements because the network is used jointly for interstate and local services.

We anticipate that Frozen High-Cost support will continue at $16.4 million for at least several more years or until VITELCO or another ETC wins an auction under CAF Phase II to provide broadband infrastructure in the USVI.

Lifeline

Because all ETCs are required to offer a Lifeline discount to eligible consumers we asked the Company to provide a status of its Lifeline services. The federal low-income program currently provides a discount of $9.25 per month. VITELCO is also required to provide a local discount of $10.55 which is funded through local rates.

VITELCO reported that it had 625 Lifeline customers at the end of 2013, 484 at the end of 2014 and 404 at the end of 2015. There were only 365 as of July, 2016. Some of the decline may represent competitive losses to other ETCs[12] or to disenrollment as the result of the customers' failure to pass eligibility requirements. VITELCO has published Lifeline brochures in English and Spanish that are on display in its business offices and has participated in Lifeline events with the PSC several times a year. Nevertheless, Lifeline participation numbers are disappointing. In our 2012 review of the Lifeline program, we estimated that 35-40% of the households in the USVI may be eligible for the discounted service. This is a

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[10] Since the enactment of the Federal Telecommunications Act of 1996, the FCC created a number of mechanisms for allocating and managing USF support. The mechanisms that applied to any particular carrier depended on whether it was rural or non-rural, price-cap or rate of return for interstate access charges, the timing of its conversion to price-caps, whether it served more or less than 50,000 access lines and whether or not it participated in earlier interstate access charge reforms. The result was that carriers received support under a hodge-podge of different rules and regulations. VITELCO is classified as "rural" and until recently, it had more than 50,000 access lines.

[11] The FCC's universal service reforms are not expected to materially change the allocation of costs between interstate and local jurisdiction under the Part 36 rules. In the short term until companies can adjust their operations, interstate revenue requirements will stay at approximately the same level as before reform. According to the FCC, "the Commission recognized that the amount of support previously received under the different individual funding mechanisms it eliminated were still necessary for other calculations." For example, some of a carrier's interstate rates during CAF Phase I will still be calculated as if it received the same support as it received on 2011. See *In the Matter of Connect America Fund,* WC Docket No. 10-90, Order, DA 13-2101, (released October 30, 2013), para. 15. Consequently, the $12.8 million previously provided by ICLS cannot be used for support of local services.

[12] Wireless ETCs offer free phones and a block of usage to Lifeline customers.

valuable benefit that is not being utilized by many low income families. We suggest that the PSC should open an inquiry on improving Lifeline outreach.

Under the rules that went into effect in 2012, ETCs were not required to offer broadband Internet access service ("BIAS") to Lifeline subscribers and could discontinue the Lifeline discount if a subscriber purchased any services in addition to voice telephone service. VITELCO's policy at that time was to terminate the Lifeline discount for any customer who switched to a bundle that included BIAS. The Company later changed its position and, starting February17, 2015, eligible consumers have been offered a special discounted Internet rate of $15 per month with free installation.

Earlier this year, the FCC released its *2016 Lifeline Reform Order*[13] which made major changes to the Lifeline program, particularly with regard to BIAS. First, the amount of federal Lifeline support has been frozen at its current $9.25 per household. Second, the FCC recognized BIAS as a supported service under the Lifeline program and established specific service level requirements. Previously, only voice telephony was supported. With a few exceptions that do not apply to VITELCO, all ETCs must offer Lifeline BIAS meeting the FCC's performance standards. Third, the FCC started a five year phase-out of support for voice services. At the end of the transition period, December 2021, the $9.25 federal support will be focused only on BIAS. Fourth, the FCC ordered the creation of a new "National Verifier" to take over responsibility for determining Lifeline eligibility and continued verification.[14] Under the previous rules, the ETC was responsible for these functions. Fifth, the FCC changed the criteria for Lifeline qualification. Under previous rules, a consumer could qualify for Lifeline either by demonstrating household income below 135% of the federal poverty guidelines or by participating in one or more of a list of federal public assistance programs. In the *2016 Lifeline Reform Order* the FCC retained the income-based eligibility but dropped LIHEAP,[15] the National School Lunch Program ("NSLP") and TANF[16] from the list of qualifying programs. In our 2012 review of Lifeline in the USVI, we noted that almost all school aged children in the USVI receive free lunches under NSLP. VITELCO petitioned the FCC for clarification and advice on this issue but the FCC did not respond. The *2016 Lifeline Reform Order* resolved this question. The Order also eliminates qualification based on state-specified eligibility criteria. In the past, eligibility could be determined if a consumer was receiving General Assistance ("GA") in the USVI. GA used the same income eligibility criteria as the federal assistance programs. The changes discussed above do not become effective until December,

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[13] Third Report and Order, Further Report and Order and Order on Reconsideration, *In the Matter of Lifeline and Link-Up Reform and Modernization, et. al.*, WC Docket No. 11-42, et al, Released April 27, 2016, FCC 16-38

[14] The National Verifier system is to be created by USAC. It will use a database of eligible consumers drawn from the databases and records of the federal and state agencies responsible for the remaining qualifying programs: SNAP (Food Stamps), Medicaid, SSI (Supplemental Security Income), Federal Public Housing Assistance and Veterans Pension benefit. USAC has been ordered to procure the necessary pieces of the National Verifier by December 1, 2016.

[15] "Low-Income Home Energy Assistance Program." This program provided support for home energy bills and home weatherization projects.

[16] "Temporary Assistance to Needy Families." This program provides support to families to take care of children in their own homes. It also encourages work and marriage, and offers pregnancy assistance and counseling.

2016. We intend to examine the penetration of BIAS under the Lifeline program after the new rules take effect.

Local Rates

This review is based on the 2015 cost and revenue data provided by the company.[17] GCG did not independently validate that data for this analysis. During the recently concluded rate investigation (Docket No. 626) we identified a number of instances where the Company's rate case submission, which was based on a forecasted test year of 2016, departed from traditional rate making principles. The most significant of these issues involved the treatment of depreciation reserves, retirement and removal of legacy plant, and adjustments to the fixed assets based on a Fair Value study. We also testified that the Company's cost allocation methodology did not comport with FCC rules.[18] Finally, we challenged the target rate of return on rate base that is a key component of the revenue requirement. VITELCO contested our positions and the rate case reached a negotiated settlement without resolving these issues. Due to the limited scope of this "use" certification review, we cannot determine completely whether or not the revenue requirement data provided by the Company was prepared using traditional ratemaking rules. Accordingly, our reliance on the Company's data for the limited purpose of this "Use" certification review should not be construed to be an acceptance of the ultimate accuracy of that data or the related Part 64 cost allocation study or Part 36 jurisdictional separations study.

Our review took into account all cross-service subsidies and the allocation of regulated costs to the local jurisdiction in the Part 36 study. Using the data provided by the company, we determined that the 2015 local revenue requirement exceeded local revenues, including directory advertising revenue, by more than the amount of USF attributable to local under the legacy HCL program. Therefore, it is reasonable for purposes of this proceeding to assume that USF could have been used to make up at least part of the difference.[19] A more detailed analysis, in our opinion, is not necessary because the frozen high-cost support is not solely intended to cover a portion of local revenue requirements. As shown below, support may also be used for network enhancements.

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[17] While the revenue and expense data and the Part 36 study submitted by VITELCO are based on a calendar year, the 5-year plan expenditures are actually based on VITELCO's fiscal year 2016 which ended March 31, 2016. As a consequence of the transfer of control of the company to ATN, VITELCO is changing its fiscal year to align with the calendar year. Next year's "Use" certification will be based on consistent data.

[18] Under the FCC's regulatory accounting rules, all assets, liabilities, revenues and expenses are first booked to accounts under the Uniform System of Accounts contained in Part 32 of the FCC rules. These account values are then directly assigned or allocated between regulated and non-regulated amounts under the FCC's Part 64 rules. The regulated amounts are further directly assigned or allocated to the interstate or intrastate/local jurisdictions under Part 36 rules. Both Part 64 and Part 36 allocations are based on the principle of cost causation. Where possible, costs are directly assigned. Where direct assignment is not possible, costs are allocated in proportion to some unit of measure that has a relationship to the cost. For example, wages of Outside Plant technicians may be allocated on the same basis as the outside plant they maintain. Where there is no other basis for allocation, costs are allocated based general factors such as the allocation of all other expenses.

[19] New rates for all local services went into effect August 1, 2016. The new rates are expected to generate approximately $2 million in new revenue.

The table below contains information alleged to be CONFIDENTIAL

			$ Thousands
			2016
1	Local Exchange Revenue Requirement		[redacted]
2	Net Local Revenues*		[redacted]
3	Shortfall		[redacted]
4	Frozen High Cost Support (Amount attributed to local operations)		3,505

* Does not include any USF support.

The table above contains information alleged to be CONFIDENTIAL

<u>Network Enhancements</u>

The paragraph below contains information alleged to be CONFIDENTIAL

VITELCO's CAPEX[20] for FY 2016 was $[redacted]. The bulk of this investment was for plant replacement, customer line buildouts, capacity upgrades and upgrades to other plant facilities. An additional $[redacted] was spent on service quality improvement expenses such as customer care, installations and repairs, and network operations. The FCC recognizes these expenses as legitimate high-cost support expenditures. The total of High-Cost Support expenditures was $[redacted]. Since the HFC network conversion which supports both voice and broadband service was largely completed in 2015, we are satisfied that any USF utilized as CAPEX or service quality improvement was used for the purpose intended.

The paragraph above contains information alleged to be CONFIDENTIAL

VITELCO submitted a five-year plan covering 2017 to 2021 that is substantially in compliance with the PSC's requirements in that it includes specific projects along with budget estimates and starting and end dates by location. As could be expected, the bulk of the CAPEX will be used for routine plant replacement, customer line buildouts and capacity upgrades. There is also substantial amount each year that will be used for general support facilities and equipment such as vehicles, computers and building repairs and upgrades. The remaining projects are primarily new equipment for broadband services. Given that the company is operating an integrated network we are satisfied that the projects identified will generally support both voice and broadband services.

Please note that the amounts identified as "Service Quality Improvement" in the chart below are also included as part of local exchange revenue requirements in the discussion above regarding local rates.

Based on the information provided by VITELCO, the amounts of USF not being used to underwrite the shortfall in local revenue requirements, or to support of interstate access

[20] "CAPEX" means the amount of expenditures for construction or upgrade of fixed assets for the period.

charges under the HCLS program, are being used appropriately to build or support infrastructure that is needed for both broadband and voice services.

The table below contains information alleged to be CONFIDENTIAL

The chart below summarizes the expenditures projected by VITELCO ($000):

		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Voice/Broadband Capex		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Routine included above	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	CO and OSP improvements included above	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Service Quality Improvement		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total Planned Expenditure		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Frozen High-Cost Support		16,361	16,361	16,361	16,361	16,361	16,361

The table above contains information alleged to be CONFIDENTIAL

VITELCO cautions that as business plans evolve under new ownership, capex projections and commitments may change. We agree that such change is likely. We also point out that there is some uncertainty as to the amount of USF support that will be available to VITELCO as a result of FCC actions. Nonetheless, the projections provided by the Company provide some assurance that future USF support will be used as intended by the FCC.

Service Quality

During last year's "Use" certification review we examined VITELCO's reported quality of service ("QoS") results from 2013 through April, 2015. We noted that there had been some improvement over past performance but that performance on the repair related metrics was dismal and getting worse. In view of the repeated failure of the Company to meet performance objectives, we recommended that the PSC impose a penalty until such time as performance improved. In September, 2015, VITELCO's CEO told the Commission that the QoS data which we relied on for our analysis was flawed. The Commission then gave the Company some time to correct the errors before it would consider imposing penalties. In October, 2015, the Company told the PSC that the previously reported performance data incorrectly included Internet and cable television and counted "unusual repairs" which should have been excluded. In March, 2016, The Company notified the PSC that the data integrity issues had been resolved. At the same time the QoS issues were under consideration, the VITELCO rate investigation (Docket No. 626) was being concluded. As part of the Consent Order in that docket, the Commission held back the effective date of the newly approved local rates until such time as the Company demonstrated that it met the QoS standards for a four month period.

In July, 2016, VITELCO submitted its Telephone Operations Report (reproduced below) for the period January through June, 2016. This report showed that for the period March through June, the Company met almost every metric on a total company basis. Based on this report, the new local rates were allowed to go into effect August 1.

INNOVATIVE TELEPHONE OPERATIONS REPORT

	Objective	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Customer Service							
Call Volume							
Calls Received		3957	3530	3200	2457	3445	3175
Calls Abandoned		565	244	50	41	85	37
Calls Answered		3392	3286	3150	2416	3360	3138
Percent Calls Answered within 20 Seconds	90%	62%	79%	92%	95%	90%	95%
Repair (912)							
Call Volume							
Calls Received		6235	4900	4626	4136	6837	5505
Calls Abandoned		1212	113	68	70	354	78
Calls Answered		5023	4787	4558	4065	6484	5427
Percent Calls Answered within 20 Seconds	90%	51%	85%	93%	92%	74%(1)	90%
Service Centers							
Customer Repair Reports Received							
Total Company		1208	1332	1202	1044	2490	1542
St. Thomas		532	697	646	463	1715	823
St. Croix		545	497	469	455	526	590
St. John		131	138	87	126	249	129
Percent Repair Reports Cleared within 24 hrs.							
Total Company	85%	58%	90%	94%	95%	95%	93%
St. Thomas		67%	93%	93%	95%	96%	92%
St. Croix		55%	87%	93%	96%	93%	96%
St. John		39%	86%	98%	89%	87%	83%
Percent Repair Reports Cleared W/I 48 Hrs.							
Total Company		9%	3%	3%	3%	3%	4%
St. Thomas		9%	3%	3%	3%	2%	5%
St. Croix		8%	3%	3%	2%	3%	2%
St. John		13%	8%	2%	7%	8%	11%
Percent Repair Reports Cleared W/I 72 Hrs.							
Total Company		5%	3%	1%	1%	1%	1%
St. Thomas		5%	2%	1%	1%	1%	1%
St. Croix		4%	3%	2%	1%	2%	1%
St. John		9%	5%	0%	1%	2%	3%
Percent Repair Commitments Met							
Total Company	90%	92%	98%	98%	97%	99%	98%
St. Thomas		94%	99%	98%	99%	99%	98%
St. Croix		89%	97%	97%	97%	97%	98%
St. John		97%	98%	100%	93%	100%	98%
Customer Repair Reports (troubles per 100)	9.5	3.2	3.6	3.2	2.8	6.8	4.2
Customer Installation Requests Received [21]							

[21] The term "dispatched" means a technician went to the customer's premises to install services. The term "line energized" means service was turned on from the central office switching location. The connection from the network to the customer's premises was already in place so there was no need to dispatch a technician.

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Total Company		353	243	200	169	174	208
St. Thomas - Dispatched		86	58	57	41	48	64
St. Croix - Dispatched		48	36	39	26	22	38
St. John - Dispatched		18	10	10	5	4	7
St. Thomas - Line Energized		97	77	41	50	56	46
St. Croix - Line Energized		86	59	45	46	44	44
St. John - Line Energized		18	3	8	1	0	9
Percent Installations completed within 5 days							
Total Company	90%	66%	73%	90%	93%	91%	97%
St. Thomas - Dispatched		49%	68%	89%	81%	74%	98%
St. Croix - Dispatched		29%	26%	81%	92%	92%	94%
St. John - Dispatched		79%	79%	40%	80%	100%	88%
St. Thomas - Line Energized		99%	93%	100%	98%	100%	100%
St. Croix - Line Energized		80%	95%	100%	100%	93%	98%
St. John - Line Energized		94%	100%	100%	100%	N/A	100%
Percent Installation Commitments Met							
Total Company	90%	91%	93%	94%	91%	93%	94%
St. Thomas		91%	95%	97%	92%	88%	95%
St. Croix		91%	94%	94%	88%	100%	96%
St. John		94%	76%	83%	100%	100%	82%
Orders held over 30 days							
Total Company		111	90	83	16	16	24
St. Thomas		31	19	12	5	8	17
St. Croix		70	58	58	4	1	1
St. John		10	13	13	7	7	6
Directory Assistance (913) average answer time (sec)	<10 sec.	5.75	5.00	6.25	5.75	5.75	5.60

Notes: 1. During this period there were multiple district wide commercial power outages in the territory that have negatively impacted this result. The impact is currently under review and VITELCO reserves the right to submit an amended report for this period once its review is complete.

The Docket 626 Consent Order requires VITELCO to retain an independent consultant to review the Company's QoS data collection and reporting procedures to provide assurance that the metrics are accurate. The Company is to consult with the PSC Staff on the scope of this review. The consultant is to provide a report to the PSC by November 1.

Other Requirements

Regarding the other requirements in Section 54.313: of the federal rules:

VITELCO reported one instances of widespread network outages lasting at least 30 minutes in 2015. This outage occurred in April. It lasted approximately four hours and affected 7,100 customers. 911 was not affected.

VITELCO reported that it had received 21 requests for voice services and 47 requests for broadband services during 2015 that it could not fulfill. According to the Company, seven voice orders and 21 broadband orders were waiting construction. The balance appears to be in areas where the new HFC network is not deployed. These orders were being evaluated by the Company Engineering Department.

VITELCO reported receiving 1.021 complaints per 1,000 voice access lines and 0.203 complaints per broadband access line. We believe this is reasonable for a company of this size although the Commission may wish to inquire into the nature of the complaints. We note that the number of complaints per 1,000 voice lines dropped considerably in 2015. It had been 1.899 in 2014.

VITELCO certified that it would be able to function in emergency situations. It has battery banks and emergency generators in the central office switching locations and has deployed field generators at strategic locations to power the nodes that are not powered from the central offices. Procedures are in place to refuel these field generators during emergencies.

Finally, VITELCO provided the required information regarding pricing of services, corporate structure and affiliates.

In view of the above, we recommend that VITELCO's request for USAC certification should be APPROVED. A draft certification letter to the FCC and USAC is attached.

Please call us if you have any questions about this report.

Cordially,

Jim Madan

Jamshed K. Madan

Cc: Walter Schweikert